

PRESQUE ISLE DISTRICT LIBRARY

Financial Statements
For the Year Ended December 31, 2007

JOHNSON & SCHULZE PC

**PRESQUE ISLE DISTRICT LIBRARY
CONTENTS**

	<u>Page</u>
AUDITING PROCEDURES REPORT	1
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 5
BASIC FINANCIAL STATEMENTS	
Governmental Funds - Balance Sheet / Statement of Net Assets	6
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance / Statement of Activities	7
Notes to Financial Statements	8 - 13
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	14
LETTER OF COMMENTS AND RECOMMENDATIONS	15 - 17

Auditing Procedures Report

[Reset Form](#)
[Email](#)

Issued under Public Act 2 of 1968, as amended

Unit Name	PRESQUE ISLE DIST LIBRARY	County	PRESQUE ISLE	Type	LIBRARY	MuniCode
Opinion Date	May 13 2008	Audit Submitted	Jun 6 2008	Fiscal Year	2007	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 758,272.00
General Fund Expenditure:	\$ 682,638.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 1,363,040.00
Governmental Activities Long-Term Debt (see instructions):	\$ 437,816.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations)

CPA (First Name)	Kristy	Last Name	Schulze	Ten Digit License Number	1101025896
CPA Street Address	1223 S. State Street Ste A	City	Alpena	State MI	Zip Code 49707
CPA Firm Name	Johnson & Schulze PC	Unit's Street Address	181 E Erie Street	City	Rogers City
				Zip Code	49779

INDEPENDENT AUDITORS' REPORT

**Board of Directors
Presque Isle District Library
Rogers City, Michigan**

We have audited the accompanying statement of financial position of the Presque Isle District Library, (herein referred to as the Library), as of December 31, 2007, and the related statements of activities for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Library as of December 31, 2007, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Library taken as a whole. Information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, therefore, we do not express an opinion on them.

**Johnson & Schulze PC
Alpena, Michigan**

May 13, 2008

Presque Isle District Library
Management's Discussion and Analysis/Fiscal Year 2007

To auditor: May 23, 2008

Using this Annual Report:

This annual report consists of three parts, including *Management's Discussion and Analysis*, the *Basic Financial Statements*, and *Required Supplementary Information*.

- The financial statements will be comparative with the prior years financials. (2006) *Management's Discussion and Analysis* will also use comparisons, in order to more clearly explain the financial state of the Library.
- An independent auditor audits Presque Isle District Library each fiscal year, thus, the financial portion of this report will be independent, with additional comments provided by management in this section.
- Charts and graphs will not be included in this year's MD&A due to the change in the chart of accounts from past accounting practices in order to comply with the State requirements. The reports must be rebuilt and though we are working on rebuilding these, it is not yet complete.

The Library as a Whole:

This section of the MD&A will include the elements such as *a brief discussion of the basic financial statements; analysis of the library's overall financial position and results of operations; analysis of significant budget variations; and discussion of currently known facts, decisions, or conditions affecting the Library.*

- The Library has 3 branches in addition to the administrative location and can be classified as moderate in size.
- Circulation has increased significantly this year and Technology has been updated even beyond the current Technology plan thanks to a \$24,035 grant from the Bill and Melinda Gates Foundation. This grant allowed us to replace all outdated patron computers and update our antivirus software. 2 patron computers were added to Grand Lake Branch Library in anticipation of increased use due to a new library building. 19 patron computers were replaced with updated computers due to the Gates Grant. 3 staff computers were replaced. Computer classes are still being held on a regular basis throughout the year at all locations and have there has been a significant increase in attendance.
- Revenue is obtained through state aid, penal fines, local government revenues, interest revenues, local donations and bequests, material fines and lost book charges and government and/or private grants.
- Local government revenues in the form of a .75 assessed mill reduced by Headlee rollbacks to .6944 mills, provided 73% of the library revenues compared to 65% from the previous year. An increase due to the additional .25 mills voted and assessed in 2006, and payable in 2007. Public and business support for the Library increased tremendously due to magnified fund raising efforts. Several businesses have donated money to improve and the Library has again increased its outreach to, and collaboration with, the communities and organizations within the District.
- State aid was up slightly but will likely be cut next year.

- Penal fines were up an additional \$4,000 in 2007, compared to 2006, which leaves the overall increase of State aid around 8% from 2006.
- Overall income was up about 40% from the previous year due to a large private donation of \$33,332 and increased millage revenues as mentioned above.
- There were again no layoffs, however, 2 fulltime employees resigned and they were replaced with 2 fulltime (40 hrs.) and 1 part-time employee.
- Salary expense was up slightly more than 8% due to salary increases and hiring of an additional employee. Adjustments were also made to salary because of the minimum wage increase. This wage increase probably accounts for more than 2% of the increase.
- There was \$450,000 of long-term debt incurred in 2007 through a resolution bond that was less than 5% of the SEV of the Libraries district.
- The Library remains in excellent financial shape even though travel costs, utilities and other expenses are up significantly due to high gasoline prices. Programming continued at about the same level as the previous year, thanks to local support and Grants. Local donations overall remain strong and local businesses have been generous again in 2007.

Individual Fund and Account Analysis

Checking Account

- This account shows a balance of \$55,196. Cash flow was strong. There was no delay in paying any bills other than those for which invoices had not yet been received. There was considerably more cash flow in 2007 than 2008 thus no problem meeting January 2008 payroll and bills.

Johnson Bequest Fund

- No significant change in this account over last year. Most of the interest was spent leaving the year-end balance in the CD around \$149,882.44.

Henry & Margaret Hoffman Fund

- This fund was created as the result of a bequest made by a local resident who left close to \$90,000 to the Library.
- The Year-end balance of this account is \$110,851.62, which is up significantly from last year (10%) due to earned interest.

Richard & Catherine Trust Fund Donation

- This fund was designated for use at the Grand Lake Branch of the Library. The funds were used to help pay unexpected expenses from the building project and to help furnish the library and conference room for the new building. An accounting of this fund has been given to the auditor. Also a complete accounting of expenses paid for the new building construction is almost complete and will also be provided to the auditor.

Accounts Receivable

- This account shows a balance of \$186.91 an outstanding balance due from a donation for books from the Onaway Branch Library Friends Group.

Petty Cash Account

- This fund is \$50 at the year-end, as it should be. All expenses were accounted for by receipt (see audit). Mostly used for mailing packages or small emergency purchases. No change.

Liabilities & Equity

- Fixed assets remain virtually the same, except for the additional interest and furniture purchases at the new building location.
- There is currently around \$450,000 in long-term liabilities.

Respectfully submitted,

Janis K. Stevenson, Director

PRESQUE ISLE DISTRICT LIBRARY
Governmental Funds
Balance Sheet/Statement of Net Assets

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2007

	General Fund Modified Accrual Basis	Adjustments (Note 7)	Statement of Net Assets
ASSETS			
Cash and investments (Notes 2 & 4)	\$ 413,124	\$ -	\$ 413,124
Capital Assets, Net of Accumulated Depreciation	-	1,400,366	1,400,366
Total assets	<u>\$ 413,124</u>	<u>\$ 1,400,366</u>	<u>\$ 1,813,490</u>
LIABILITIES			
Accounts payable and accrued liabilities	12,634	-	12,634
Long-term Liabilities:			
Due within one year:			
Current portion of long term debt			
Due in More than One Year:			
Bonds Payable	-	437,816	437,816
Total liabilities	<u>12,634</u>	<u>437,816</u>	<u>450,450</u>
FUND BALANCE / NET ASSETS			
Fund Balance			
Restricted	202,402	(202,402)	-
Unrestricted	198,088	(198,088)	-
Total fund balance	<u>400,490</u>	<u>(400,490)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 413,124</u>		
NET ASSETS:			
Invested in capital assets, net of related debt		962,550	962,550
Restricted for donor-restricted purpose		202,402	202,402
Unrestricted		198,088	198,088
Total net assets		<u>962,550</u>	<u>1,363,040</u>
Total liabilities and net assets		<u>\$ 1,400,366</u>	<u>\$ 1,813,490</u>

The accompanying notes are an integral part of the financial statements.

PRESQUE ISLE DISTRICT LIBRARY
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance /
Statement of Activities

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2007

	General Fund Modified Accrual Basis	Adjustments (Note 7)	Statement of Activities
REVENUE			
Property taxes	\$ 548,706	\$ -	\$ 548,706
State aid	12,618	-	12,618
Penal fines	49,738	-	49,738
Interest on investments	40,545	-	40,545
Contributions and grants	89,211	-	89,211
Library fines and fees	4,764	-	4,764
Bond Proceeds	450,000	(450,000)	-
Other miscellaneous	12,690	-	12,690
Total Revenue	<u>1,208,272</u>	<u>(450,000)</u>	<u>758,272</u>
EXPENDITURES			
Salaries and fringe benefits	355,470	-	355,470
Supplies	46,298	-	46,298
Library books, materials, and other	65,769	(54,916)	10,853
Professional and contractual services	2,175	-	2,175
Conferences, workshops, and travel	11,236	-	11,236
Insurance and bonds	18,032	-	18,032
Health Insurance and dental	12,960	-	12,960
Utilities	27,309	-	27,309
Rent	22,732	-	22,732
Building repair and maintenance	5,622	-	5,622
Capital outlay	522,540	(522,540)	-
Depreciation	-	106,439	106,439
Postage	3,676	-	3,676
Public relations	34,845	-	34,845
Equipment Maintenance	15,880	-	15,880
Dues & administrative fees	7,129	-	7,129
Other	1,982	-	1,982
Total Expenditures	<u>1,153,655</u>	<u>(471,017)</u>	<u>682,638</u>
EXCESS OF REVENUE OVER EXPENDITURES/ CHANGE IN NET ASSETS	54,617	21,017	75,634
BONDS ADJUSTMENT	-	450,000	-
PRIOR PERIOD ADJUSTMENT	43,788	12,184	55,972
FUND BALANCE/NET ASSETS - Beginning of year	<u>302,085</u>	<u>917,165</u>	<u>1,231,434</u>
FUND BALANCE/NET ASSETS - End of year	<u>\$ 400,490</u>	<u>\$ 1,400,366</u>	<u>\$ 1,363,040</u>

The accompanying notes are an integral part of the financial statements.

PRESQUE ISLE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

Definition of the Reporting Entity

The Presque Isle District Library (the "Library") was established May 19, 1992 pursuant to Act No. 24 of the Public Acts of 1989 (MCL 397.171), known as "The District Library Establishment Act."

The district of the Library consists of the entire geographic area of Presque Isle County. The Library provides library services to the residents of the district and enters into contracts to provide library services to municipalities outside the district, such as Forest and Waverly Townships in Cheboygan County, Michigan.

The Library is governed by a Board, which consists of seven (7) members. The Mayor of the City of Onaway, with the approval of City Council, appoints one board member from the Onaway area for a term of four (4) years. The Presque Isle Township Supervisor, with the approval of the Township Board, appoints one board member from the Grand Lake area for a term of four (4) years. The Posen Township Supervisor, with the approval of the Township Board, appoints one board member from the Posen area for a term of four (4) years. The Presque Isle County Board of Commissioners appoints three (3) board members for term of four (4) years each, two of whom represent the areas of the county without a branch library and one represents the Rogers City area. The Mayor of the City of Rogers City, with the approval of City Council, appoints one board member from the City of Rogers City for a term of four (4) years.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, these financial statements represent the Library. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, the Library has no component units.

Basis of Presentation

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net assets and the statement of activities on a full accrual basis.

Fund Financial Statements

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Library, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds, which are maintained in accordance with the activities or objectives specified.

The financial activities of the Library are recorded in one fund as follows:

Governmental Fund:

General Fund: This fund accounts for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes and penal fines. This fund includes the general operating expenses of the Library.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

PRESQUE ISLE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Measurement Focus / Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the Library conform to generally accepted accounting principles as applicable to governmental units.

Governmental Fund - The Governmental Fund Type (General Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with maturity of three months or less when acquired.

Investments

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

Current property taxes

Properties are assessed as of December 31 and the related property taxes become a lien on December 1. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The December 2006 State equalized valuation of the Library totaled \$904,744,169. The State taxable valuation of the Library totaled \$574,213,724 on which ad valorem taxes levied consisted of .95210 mills, raising \$546,709 for operating purposes.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Furniture and Equipment	5-15 years
Building Improvements	30 years
Library books and materials	3-15 years

PRESQUE ISLE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The budget of the General Fund is legally adopted through a Board resolution prior to the beginning of the budgetary year. There were four amendments to the original budget during the year. The encumbrance method of budgeting is not used. Any unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device for the General Fund. Budgets are prepared on a modified accrual basis, which is in conformity with generally accepted accounting principles.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act (PA 2 of 1968, as amended; MCL 141.421 et seq.) provides that expenditures shall not be incurred in excess of the amount appropriated. The Library's budgeted and actual expenditures for the funds budgeted have been shown on a functional basis.

The Library did not incur any excesses of expenditures over budgeted funds appropriated for the current year.

Accumulated Fund Deficits

The Library had no funds with an accumulated fund balance/retained earnings deficit at December 31, 2007.

NOTE 4 - CASH AND CASH INVESTMENTS

Deposits are carried at cost. Deposits are in three financial institutions in the name of the Library. The Library's investment policy authorizes the Library Treasurer to invest in the following types of securities:

- A. Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but the Library shall not deposit or invest funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- C. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.65 State / 890.15 ISC 9a1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- D. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 2129.111 to 129.118; or

**PRESQUE ISLE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

December 31, 2007

E. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

At year-end, the carrying amount of the Library's deposits were \$347,645 and the respective bank balance totaled \$354,561, of which \$162,026 was covered by Federal Depository Insurance. The difference between the carrying amount of the Library's deposits and the respective bank balance represents checks written during the year but not yet presented for payment. The Library also had \$50 in imprest cash at year-end. All of the Library's deposits were made in accordance with the investment policy.

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in general fixed assets follows:

	Balance 1/1/07	Additions	Deletions	Balance 12/31/07
Land and Land Improvements	\$ 64,271	\$ -	\$ -	\$ 64,271
Building	425,000	474,501	-	899,501
Building Improvements	104,202	28,404	-	132,606
Computers, software, & information sources	86,603	2,480	-	89,083
Furniture and Equipment	121,045	17,155	-	138,200
Library books and Materials	876,694	54,916	-	931,610
Total	1,677,815	577,456	-	2,255,271
Accumulated Depreciation	(748,466)	(106,439)	-	(854,905)
Net Book Value	<u>\$ 929,349</u>	<u>\$ 471,017</u>	<u>\$ -</u>	<u>\$ 1,400,366</u>

NOTE 6 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefits provided to employees.

The Library's coverage on general liability is \$1,200,000, with a liability limit of \$1,200,000. The Library's coverage on books, audio, video, software and equipment is a blanket replacement cost policy for all locations with a maximum coverage of \$2,400,000 with no individual location limits after a \$1,000 deductible per occurrence. The Library's coverage on public officials is covered by the appointing municipal entity and is not duplicated by the Library. Real estate is insured for replacement value with a current maximum value of \$544,000 for a complete loss. Any liability for losses which exceed these amounts would remain with the Library.

NOTE 7 - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from the net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance.

PRESQUE ISLE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in assets:

Total Fund Balance - Modified Accrual Basis	\$	400,490
---	----	---------

Amounts reported in the Statement of Net Assets are different because:

Capital assets are not financial resources, and are not reported in the funds		1,400,366
---	--	-----------

Net Assets of General Fund - Full Accrual Basis	\$	1,800,856
---	----	-----------

Net Change in Fund Balances - Modified Accrual Basis	\$	54,617
--	----	--------

Amounts reported in the Statement of Activities are different because:

Capital outlays are reported as expenditures in Statement of Revenue, Expenditures and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as Depreciation:

Library books, materials, and other		54,916
Capital outlay		522,540
Depreciation		(106,439)

Bond Proceeds to finance the Grand Lake Branch		(450,000)
--	--	-----------

Change in Net Assets of General Fund - Full Accrual Basis	\$	75,634
---	----	--------

NOTE 8 - COMPENSATED ABSENCES

This was the first full year of the sick leave policy, which was implemented as of October 4, 2006. This policy covers all employees, both full time and part time, with sick leave accumulated using a rate schedule approved by the board. This rate is based upon the number of hours worked per week. Upon termination of employment, salaried employees can negotiate payment for their accumulated sick leave with the Board, but regular part-time and regular full-time employees forfeit their accumulated sick leave upon termination.

NOTE 9 - PENSION PLAN

The Library does not provide a pension plan.

PRESQUE ISLE DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 10 - BONDS PAYABLE

The Library purchased 4.7% resolution bonds to finance the construction of the new Grand Lake facility. The bond proceeds were \$450,000. The entire amount was deposited into a temporary construction fund until such time as the project was complete. In addition to the bond proceeds, the Banner Trust contributed \$24,500 to the construction of the new facility for a total of \$474,500 expended. The bond repayment schedule is as follows:

2008	\$21,518
2009	22,625
2010	23,728
2011	24,353
2012 and thereafter	<u>345,592</u>
Total:	\$437,816

The Library paid \$12,198 in interest on the bonds in 2007.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

In prior years, capital assets were not included in the net assets of the Library. The prior period adjustment accounts for those assets placed in service in years prior to 2006.

**PRESQUE ISLE DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE**

For the Calendar Year ended December 31, 2007

	Original Budget	Budget	Actual Balances	Variance Favorable (Unfavorable)
REVENUE				
Property taxes	\$ 546,708	\$ 548,706	\$ 548,706	\$ -
State aid	11,500	12,618	12,618	-
Penal fines	45,700	49,738	49,738	-
Interest on investments	20,500	29,319	40,545	11,226
Contributions and grants	29,050	89,159	89,211	52
Library fines and fees	4,000	4,800	4,764	(36)
Other miscellaneous	30,500	75,173	12,690	(62,483)
Bond Proceeds	-	450,000	450,000	-
Total Revenue	687,958	1,259,513	1,208,272	(51,241)
EXPENDITURES				
Salaries and fringe benefits	337,500	356,464	355,470	994
Supplies	31,100	74,138	46,298	27,840
Library books, materials, and other	78,600	68,062	65,769	2,293
Professional and contractual services	5,000	2,175	2,175	-
Conferences, workshops, and travel	10,700	11,300	11,236	64
Insurance and bonds	51,400	26,915	18,032	8,883
Health Insurance and dental	11,100	12,960	12,960	-
Utilities	28,200	27,500	27,309	191
Rent	22,732	22,732	22,732	-
Building repair and maintenance	9,700	18,239	5,622	12,617
Capital outlay	2,000	522,540	522,540	-
Postage	2,975	3,688	3,676	12
Public relations	36,000	34,845	34,845	-
Equipment Maintenance	16,500	16,000	15,880	120
Dues & administrative fees	6,900	7,129	7,129	-
Other	37,551	54,826	1,982	52,844
Total Expenditures	687,958	1,259,513	1,153,655	105,858
EXCESS OF REVENUE OVER EXPENDITURES/ CHANGE IN NET ASSETS	-	-	54,617	54,617
ADJUSTMENT	43,788	43,788	43,788	-
FUND BALANCE/NET ASSETS - Beginning of year	302,085	302,085	302,085	-
FUND BALANCE/NET ASSETS - End of year	<u>\$ 345,873</u>	<u>\$ 345,873</u>	<u>\$ 400,490</u>	<u>\$ 54,617</u>

The accompanying notes are an integral part of the financial statements.

Honorable Board Members
Presque Isle District Library
Rogers City, Michigan

LETTER OF COMMENTS & RECOMMENDATIONS

We are very appreciative for the opportunity to provide audit services for the Presque Isle District Library.

Our office is submitting an electronic copy of the audited financial statements, as well as this letter of comments and recommendations in PDF format to the State Treasurer's office. The audit should be formally accepted by your board and indicated so in your board minutes.

We conducted our audit of the Financial Statements of the Library in accordance with the auditing standards generally accepted in the United States of America. The following summary explains both our responsibilities and the responsibilities of the management of the Library.

- Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

Materiality plays a very important role to auditors. We place a larger emphasis on items that have a greater chance of having a material error than those in which the possibility of such an error is remote. Materiality defined is, "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been influenced by the omission or misstatement".

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that the financial statements are free from material misstatement. Therefore, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implied in the phrase, "in our opinion".

Auditing standards require us to inform you of significant issues encountered in performing the audit. We have no significant issues to report to you at this time. Audit adjustments will be provided to and reviewed with management at a convenient time in the near future.

There are some comments and recommendations we would like to provide in the interest of improving compliance with various state and federal regulations, and also to increase the internal controls of the Library.

Comments and Recommendations for the 2008 Audit Only

1. Sick Leave policy

The Board implemented a policy for accruing sick leave for the employees of the Library. The policy states specific ranges for hours worked and the corresponding amount of sick time accrued for that time worked. During our review of the adherence to the new policy, it was noted that there were several instances where sick time was accrued at a range higher than what the employee actually worked. The amounts were not considered to be material.

Recommendation

We recommend a review of the policy by payroll personnel, in addition to an in-house review quarterly for the calendar year 2008 to ensure compliance.

2. Internal Controls

As we audited the basic financial statements of the Library, an internal control weakness considered to be a reportable condition by the standards of the American Institute of Certified Public Accountants was recognized. Due to a relatively small number of employees involved in the accounting process for the Library, it is very difficult for the Library to maintain a complete separation of duties. It is understood that a complete separation of duties is not realistic with the current staff. It is the Board's decision to determine to what extent it makes financial sense to separate the financial duties, i.e., at what point do the benefits of a stronger internal control outweigh the additional costs. We list this item within our comments and recommendations for the purpose of reminding the Board of the limitations in their internal control system.

We do not believe the internal control structure to be a material weakness and mention it only because it is a required communication of the Statement of Auditing Standards No. 60.

3. Preparation of the payroll tax reports

In our audit of the salaries and wage account, we discovered that some federal forms 941 were not computed consistently. There were instances of federal wages being higher than social security and medicare wages, which in the case of the Library, is not correct.

Recommendation

The Library should ensure that responsible payroll personnel are fluent in payroll tax reporting. Also, we recommend that the 2007 forms 941 be amended so that the correct amounts are on record with the Internal Revenue Service.

Acceptance by Board of Audited Financial Statements

We suggest that the Library board make a formal acceptance of the audited financial statements at the next available opportunity and note such in the minutes.

Lastly, we would like to close by extending our sincere gratitude to the Board for your patronage, as well as your trust in us to provide you with a quality audit on a timely basis. The management of the Library was excellent to work with, providing us with courteous and timely answers to our inquiries. We are always available should there be any questions, concerns or comments regarding this audit or any other issues that may arise.

Respectfully submitted,

Kristy Schulze CPA
Johnson & Schulze PC